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copper*


K I L E M B E

COPPER COBALT LTD.



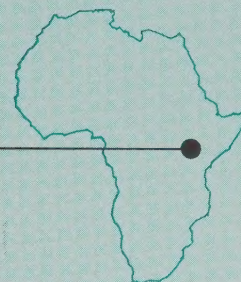
annual report

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REVIEW IN BRIEF

	<u>1972</u>	<u>1971</u>
Tons milled	907,000	948,000
Grade ore milled %		
Copper	1.73	1.80
Blister copper produced — metric tons	14,168	15,731
Sales of metals	\$15,224,000	\$17,239,000
Operating profit	\$ 1,777,000	\$ 1,360,000
Net (loss)	\$ (331,000)	\$ (638,000)
(Loss) per share	\$ (.09)	\$ (.16)
Capital expenditures	\$ 254,000	\$ 810,000
Working capital	\$ 5,639,000	\$ 4,715,000
Average selling price, cop- per per pound	48.7¢	49.4¢



HEAD OFFICE

P.O. Box 40, Commerce Court West, Toronto, Canada

OFFICERS

G. T. N. WOODROOFFE - - - - President
G. P. MITCHELL - - - - Vice-President
A. C. CALLOW - - - - Secretary
J. D. KRANE - - - - Treasurer & Controller
J. F. GILLIES - - - - Assistant-Treasurer

DIRECTORS

E. L. HEALY JAMES HOLMES
G. P. MITCHELL J. R. SMITH
G. T. N. WOODROOFFE

**TRANSFER AGENTS
AND REGISTRARS**

CROWN TRUST COMPANY
302 Bay Street, 393 St. James St. West
Toronto, Ontario Montreal, Quebec

REGISTRAR AND TRANSFER COMPANY
140 Cedar Street - - - New York 7, N.Y.

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
Toronto, Ontario

AUDITORS

CLARKSON, GORDON & Co., Toronto, Ontario

SOLICITORS

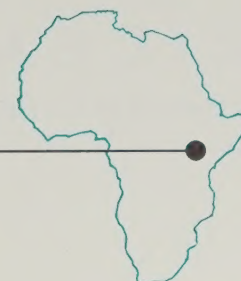
TILLEY, CARSON & FINDLAY - Toronto, Ontario

KILEMBE MINES

Kilembe, Uganda
Chairman of the Board - - - A. E. PUGSLEY
Managing Director - - - M. D. CRUICKSHANKS

ANNUAL MEETING OF SHAREHOLDERS

Wednesday, June 27, 1973 at 10.30 a.m. (E.S.T.)
Hunting Room, King Edward Sheraton Hotel
Toronto, Canada



REPORT OF THE DIRECTORS

To the Shareholders:

The consolidated loss of your Company and its subsidiary, Kilembe Mines Limited, for 1972 was \$331,000 or 9 cents per share compared to \$638,000 or 16 cents per share in 1971.

The Special Mining Lease under which your subsidiary company, Kilembe Mines Limited, carries on its mining operations in Uganda expires on December 31, 1973. A formal application has been made by the subsidiary company to the Uganda government for the renewal or extension of the lease on reasonable terms and although negotiations have been in progress since mid-1972, a satisfactory agreement has not yet been concluded. In the event that a satisfactory agreement for the renewal or extension cannot be concluded, the mine and its related assets could revert to the Uganda government, under such terms that compensation to the shareholders of Kilembe Mines Limited could not be guaranteed. The company has had no indication from the Uganda government that such reversion will occur and if it does not then normal mining operations could continue after December 31, 1973. However, as it is not known for certain at this time whether or not a satisfactory extension can be arranged, or that normal mining operations could continue after December 31, 1973, the financial statements for 1972 are being presented to you on an unconsolidated basis as well as the customary consolidated presentation.

KILEMBE MINES LIMITED

ORE RESERVES

	December 31 1972		December 31 1971	
	Metric Tons	% Copper	Metric Tons	% Copper
Proved	5,214,700	1.92	4,223,500	1.84
Probable	512,600	2.50	943,200	2.20
	<u>5,727,300</u>	<u>1.97</u>	<u>5,166,700</u>	<u>1.91</u>

In addition, it is estimated that there are 592,900 metric tons of possible ore grading 2.10% copper.

The proving of ore previously classified as probable and possible ore together with new delineations in the Lower Eastern, Buhunga and Namhuga deposits increased the proven ore reserves by almost one million metric tons despite the mining of 909,642 metric tons during the year. Much of the newly proved ore is good grade and has resulted in the increase in the overall grade of the proved ore reserves.

EXPLORATION AND DEVELOPMENT

Underground and surface drilling in all areas totalled 24,026 meters compared to 29,392 meters in the prior year.

Development work in all classes amounted to 8,492 meters compared to 12,710 meters in 1971.

An intensive development program was carried out on the lower levels of the Eastern deposit. This work delineated substantial additional ore of good grade apart from proving ore previously considered as probable and possible ore.

Development work towards the South Westerly end of the Buhunga deposit was encouraging and some 350,000 metric tons of good grade ore was added to the reserves.

Results from the development work carried out on the lower Bukangama deposit continued to be encouraging.

EXPENDITURES ON FIXED ASSETS

The expenditures on construction and replacement of fixed assets were U£194,945 (\$556,364) less than in the prior year. The expenditures in 1972 are set forth in the following table:

	Uganda Currency	Canadian Equivalent
Mining, milling and smelting equipment	U £48,960	\$ 136,231
Housing and amenities	7,408	20,613
General equipment and surface work	34,829	96,914
	<u>U £91,197</u>	<u>\$ 253,758</u>

PRODUCTION

General

Partly as a result of a chronic shortage of qualified experienced mining and technical personnel and a substantial turn-over of staff, it was not possible to reach the level of production which had been forecast for 1972.

During the present difficulties in Uganda, it has been almost impossible to obtain replacement of senior staff. The loss of many qualified technical personnel who have left the employ of the Company has placed an unusually heavy burden on remaining staff members.

Mining

Ore delivered from the mine totalled 909,642 metric tons, a decrease of some 3% from the 938,987 metric tons in the previous year. The average grade of ore mined declined to 1.73% copper from 1.80% copper during 1971.

Milling

Ore milled totalled 907,287 metric tons grading 1.73% copper compared to 947,627 metric tons of 1.80% copper in 1971.



Smelting

Blister copper production totalled 14,168 metric tons compared to 15,731 metric tons in the previous year, a decrease of 10.6%.

EXPENDITURES IN UGANDA

Cash expenditures for operating and capital account during 1972 totalled U£3,999,100 (\$11,127,495) of which expenditures made in Uganda were as follows:

	<u>Uganda Currency</u>	<u>Canadian Equivalent</u>
Wages	U £ 1,659,100	\$4,616,446
Purchases from local suppliers and contractors	1,173,050	3,264,012
Payments to Government agencies for electricity, freight, telephones, licenses, etc.	447,950	1,246,420
	<u>U £ 3,280,100</u>	<u>\$9,126,878</u>

In addition, Uganda taxes amounted to U£131,640 (\$366,288).

KILEMBE COPPER COBALT LTD.

OUTSIDE EXPLORATION

The result of the diamond drilling work carried out by an African subsidiary of Falconbridge Nickel Mines Limited in the Tsumeb area in South West Africa, in which your Company has a participation, have not been encouraging and your Company has terminated its interest in the agreement.

DIVIDEND

No dividends were paid in 1972 as your Company received no dividends from Kilembe Mines Limited during year.

ACKNOWLEDGMENT

Your directors gratefully acknowledge the efficient services rendered by the General Manager, his staff and all other employees of Kilembe Mines Limited for the accomplishments at Kilembe during an extremely difficult and trying year.

On behalf of the Board,

Toronto, Ontario,
May 15, 1973.

G. T. N. WOODROOFFE,
President.

BALANCE SHEETS

(with comparative consolidated)

ASSETS

	Unconsolidated	Consolidated	
	1972	1972	1971
CURRENT:			
Cash and temporary investments thereof at cost which approximates market value	\$ 509,086	\$ 1,080,632	\$ 1,534,713
Metal settlements receivable (note 4)		1,525,659	837,159
Accounts receivable	3,457	134,716	249,999
Copper on hand and in process (note 4)		249,328	173,686
Materials and supplies inventory, at the lower of cost and replacement cost (note 7)		4,271,432	4,606,327
Total current assets	512,543	7,261,767	7,401,884
Investment in subsidiary, Kilembe Mines Limited (note 5)	7,718,927		
FIXED AND INTANGIBLE ASSETS:			
Plant and equipment, at cost		31,775,067	31,521,309
Less accumulated depreciation		25,875,395	24,293,966
		5,899,672	7,227,343
Mining concessions, at cost, less accumulated amortization (note 1)		1	1
		5,899,673	7,227,344
Total assets	\$8,231,470	\$13,161,440	\$14,629,228

(See notes to f

AUDITOR

To the Shareholders of
Kilembe Copper Cobalt Ltd.:

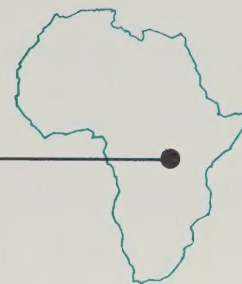
We have examined:

- the balance sheet (unconsolidated) of Kilembe Copper Cobalt Ltd. as at December 31, 1972 and the statements of loss and deficit and changes in financial position for the year then ended, and
- the consolidated balance sheet of Kilembe Copper Cobalt Ltd. and its subsidiary Kilembe Mines Limited, as at December 31, 1972 and the consolidated statements of loss and deficit and changes in financial position for the year then ended.

Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As explained in note 1 to the financial statements, the company is negotiating for a renewal or extension in the term of the lease covering the mining concessions on reasonable terms, the success of which negotiations may not be known for some time.

Toronto, Canada,
February 6, 1973.



DECEMBER 31, 1972

STATEMENT 1

ures at December 31, 1971)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Unconsolidated	Consolidated	
	1972	1972	1971
CURRENT:			
Accounts payable and accrued charges	\$ 900	\$ 1,110,843	\$ 1,485,584
Provision for Uganda mining royalties, copper export taxes and income taxes (note 6)		511,907	1,201,229
Total current liabilities	900	1,622,750	2,686,813
Minority shareholders' interest in subsidiary (30%)		3,308,120	3,380,625
SHAREHOLDERS' EQUITY:			
Capital —			
Authorized:			
5,000,000 shares of \$1 par value			
Issued:			
3,877,027 shares	3,877,027	3,877,027	3,877,027
Contributed surplus	8,193,887	8,193,887	8,193,887
Deficit (statement 2)	(3,840,344)	(3,840,344)	(3,509,124)
Total shareholders' equity	8,230,570	8,230,570	8,561,790
On behalf of the Board:			
G. T. N. WOODROOFFE, Director.			
G. P. MITCHELL, Director.			
Total liabilities and shareholders' equity	\$8,231,470	\$13,161,440	\$14,629,228

al statements)

REPORT

Because of the significance of these negotiations to the financial position as at December 31, 1972 and the statements of loss, deficit and changes in financial position for the year then ended, we are not in a position to express an opinion on the overall fairness of the financial statements.

However, if the negotiations for a renewal or extension in the term of the lease covering the mining concessions on reasonable terms are successful, then, in our opinion, on a going concern basis, the financial statements referred to above present fairly the respective financial positions, results of operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles on a basis consistent with that of the preceding year for the consolidated financial statements only, after giving retroactive effect to the restatement of materials and supplies inventory as described in note 7 of the notes to the financial statements, with which change we concur.

CLARKSON, GORDON & CO.,
Chartered Accountants.

STATEMENT 2

STATEMENTS OF LOSS AND DEFICIT

For the Year Ended December 31, 1972

(with comparative consolidated figures for the year ended December 31, 1971)

	Unconsolidated	Consolidated	
	1972	1972	1971
Revenue from metal production		\$15,224,431	\$17,239,030
Deduct transportation, refining and selling expenses		1,299,080	1,342,201
Net revenue from metal production		✓ 13,925,351	15,896,829 ✓
Operating and administration costs:			
Development, mining, milling, smelting and administration	\$ 75,504	12,148,766	14,536,613
Operating profit (loss) before the undernoted items	(75,504)	1,776,585	1,360,216
Depreciation		1,581,429	1,632,535
Share of subsidiary's loss (note 5)	169,179		
Prospecting and exploration expenses:			
In Uganda		109,119	248,016
In South West Africa	105,231	105,231	31,898
	274,410	1,795,779	1,912,449
Operating loss	(349,914)	(19,194)	(552,233)
Interest income	23,929	23,929	60,032
Loss on foreign exchange	(5,235)	(42,172)	(16,422)
Loss before Uganda mining royalties, copper export taxes, income taxes and minority interest	(331,220)	(37,437)	(508,623)
Provision for Uganda mining royalties, copper export taxes and income taxes (note 6)		366,288	373,314
Loss before minority shareholders' interest	(331,220)	(403,725)	(881,937)
Less minority shareholders' interest in loss of subsidiary		72,505	244,223
Loss for the year	(331,220)	(331,220) ✓	(637,714) ✓
Deficit, beginning of the year	(3,509,124)	(3,509,124)	(2,096,005)
Deduct dividends — 20¢ per share in 1971			(775,405)
Deficit, end of the year	\$ (3,840,344)	\$ (3,840,344)	\$ (3,509,124)
Loss per share	(9¢)	(9¢)	(16¢) ✓

(See notes to financial statements)



STATEMENT 3

STATEMENTS OF CHANGES IN FINANCIAL POSITION For the Year Ended December 31, 1972 (with comparative consolidated figures for the year ended December 31, 1971)

	Unconsolidated	Consolidated	
	1972	1972	1971 (note 7)
FUNDS WERE PROVIDED BY:			
Loss for the year	\$ (331,220)	\$ (331,220)	\$ (637,714)
Add charges (less credits) not involving an outlay (receipt) of working capital in the year—			
Share of subsidiary's loss	169,179		
Minority interest		(72,505)	(244,223)
Depreciation		1,581,429	1,632,535
Total funds (applied to) provided by operations	<u>(162,041)</u>	<u>1,177,704</u>	<u>750,598</u>
FUNDS WERE APPLIED TO:			
Purchase of fixed assets (net)		253,758	810,122
Dividends to minority shareholders of Kilembe Mines Limited			141,205
Dividends to shareholders			775,405
Total funds applied		<u>253,758</u>	<u>1,726,732</u>
(Decrease) increase in working capital	<u>\$ (162,041)</u>	<u>\$ 923,946</u>	<u>\$ (976,134)</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:			
Increase (decrease) in current assets —			
Cash and temporary investments thereof	\$ (192,986)	\$ (454,081)	\$ (212,925)
Metal settlements receivable		688,500	(116,895)
Accounts receivable	(1,783)	(115,283)	(120,634)
Advances to Uganda Development Corporation			(282,000)
Copper on hand and in process		75,642	(1,322,547)
Material and supplies inventory (note 7)		(334,895)	237,118
	<u>(194,769)</u>	<u>(140,117)</u>	<u>(1,817,883)</u>
Increase (decrease) in current liabilities —			
Accounts payable and accrued charges	(32,728)	(374,741)	(325,450)
Provision for Uganda mining royalties, copper export taxes and income taxes		(689,322)	(407,071)
Dividends payable to minority shareholders			(109,228)
	<u>(32,728)</u>	<u>(1,064,063)</u>	<u>(841,749)</u>
(Decrease) increase in working capital	<u>(162,041)</u>	<u>923,946</u>	<u>(976,134)</u>
Working capital, beginning of year	<u>673,684</u>	<u>4,715,071</u>	<u>5,691,205</u>
Working capital, end of year	<u>\$ 511,643</u>	<u>\$5,639,017</u>	<u>\$4,715,071</u>

(See notes to financial statements)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1972

1. MINING CONCESSIONS

The lease on the present mining concessions expires on December 31, 1973. Although negotiations for a renewal or extension on reasonable terms have been in progress since mid-1972, a satisfactory agreement has not yet been concluded. In the event that a satisfactory agreement for a renewal or extension cannot be concluded by Kilembe Mines Limited with the Uganda Government, the mine and its related assets could revert to the Uganda Government, under such terms that compensation to the shareholders of Kilembe Mines Limited could not be guaranteed. However, the company has had no indication from the Uganda Government that such reversion will occur and if it does not then normal mining operations could continue after December 31, 1973.

2. PRESENTATION OF FINANCIAL STATEMENTS

Because it is not possible at this time to predict with reasonable certainty that a satisfactory renewal or extension to the present mining lease will be concluded, the financial statements for 1972 are being presented on both an unconsolidated and consolidated basis.

3. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Kilembe Mines Limited which is 70% owned and is the only company in which Kilembe Copper Cobalt Ltd. has any significant direct or indirect interest.

Most of the income of Kilembe Mines Limited has been received in U.S. dollars and the expenditures have been incurred in pounds sterling or in Uganda currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following bases:

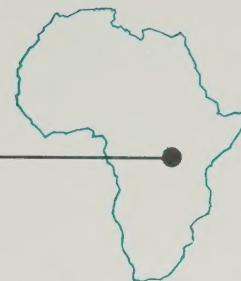
Fixed and intangible assets and share capital.	At the rates of exchange prevailing when the transactions giving rise to such items occurred.
Accumulated and current year's provisions for depreciation and amortization.	At rates of exchange prevailing when the expenditures on the related fixed and intangible assets were made.
Other assets and liabilities.	At the closing rates of exchange prevailing at the end of the year.
Revenues and expenses other than depreciation and amortization.	At the average of monthly rates of exchange in effect during the year.

4. INVENTORY OF COPPER

Copper on hand and in process consists of copper concentrates in production between the mill and the completion of the smelter operation. Inventories of copper concentrates are priced at the lower of cost and estimated realizable value, the latter based on the delivered price of refined copper less transportation, refining, selling and smelting costs. Blister copper produced by the smelter is sold under contract, and is recorded as produced in "metal settlements receivable" at estimated realizable value.

5. INVESTMENT IN SUBSIDIARY

For some years the subsidiary, Kilembe Mines Limited, has written off all fixed assets acquired during each year, but has not provided otherwise in its accounts for depreciation and amortization of its fixed and intangible assets. Adjustment is made each year by the parent company in its books to provide for its pro rata share of the difference between such depreciation and amortization and the amount of such fixed assets written off. Depreciation on fixed assets is calculated using the straight line method at



10% (used in 1971 and 1972) except where the ore milled in the year depletes the ore reserves by more than 10% and then such higher rate is used.

The carrying value of the investment and the related provision is summarized as follows:

Investment in 6,650,000 shares (of 20 Uganda shillings par value) of subsidiary, Kilembe Mines Limited, at cost	\$11,244,942
Equity in the recorded earnings of subsidiary less dividends received to December 31, 1972	5,614,031
	<u>16,858,973</u>
Less accumulated provisions for depreciation and amortization of fixed, intangible and other assets of the subsidiary (not recorded on books of subsidiary)	9,140,046
	<u>\$ 7,718,927</u>

6. UGANDA MINING ROYALTIES, COPPER EXPORT TAXES AND INCOME TAXES

Kilembe Copper Cobalt Ltd. was exempt from payment of Canadian income tax prior to 1972 since it was a "foreign business corporation" under the provisions of the then Income Tax Act. The Canadian Income Tax Act was revised with the result that the concept of the "foreign business corporation" will be phased out evenly over a period of five years beginning January 1, 1972. Although dividends from Kilembe Mines Limited will continue to be exempt, interest income, the company's only other source of income, will be subject to Canadian tax.

The provision for Uganda mining royalties, copper export taxes and income taxes consists of:

	<u>1972</u>	<u>1971</u>
Provision for mining royalties		\$ 6,028
Provision for copper export taxes		6,387
Provision for income taxes	\$ 366,288	360,899
	<u>\$ 366,288</u>	<u>\$ 373,314</u>

The Uganda government reduced the income tax rate for mining companies from 40% to 22½%, effective January 1, 1972. In addition, the copper export tax has been abolished, effective July 1, 1972.

7. RESTATEMENT OF MATERIALS AND SUPPLIES INVENTORY

In 1972, the company has classified materials and supplies inventory as a current asset. The 1971 amounts have been restated to conform with the 1972 presentation.

8. STATUTORY INFORMATION

In accordance with the requirements of Section 120B of the Canada Corporations Act, 1970, the following information is reported:

	Kilembe Copper Cobalt Ltd.		Kilembe Mines Limited	
	<u>1972</u>	<u>1971</u>	<u>1972</u>	<u>1971</u>
Number of directors	5	5	7	7
Aggregate remuneration as directors	—	—	\$ 9,739	\$ 9,908
Number of officers	5	5	3	3
Aggregate remuneration as officers	\$ 9,800	\$ 7,500	\$ 60,292	\$ 57,323
Number of officers who are also directors	2	2	2	2

TEN-YEAR REVIEW

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
Ore reserves (metric tons)	5,727,000	5,167,000	6,544,000	5,452,000	5,594,000	5,985,000	5,854,000	5,866,000	6,235,000	6,012,000
Ore treated (metric tons)	907,000	948,000	1,003,000	980,000	932,000	873,000	943,000	943,000	904,000	901,000
Grade of ore milled — % copper	1.73	1.80	1.91	1.93	1.85	1.91	1.91	1.96	2.17	2.13
Blister copper produced (metric tons)	14,168	15,731	16,958	16,563	15,597	14,426	16,098	17,141	18,260	16,216
Sales	\$15,224,000	\$17,239,000	\$24,488,000	\$26,773,000	\$20,641,000	\$17,927,000	\$21,927,000	\$27,312,000	\$19,184,000	\$11,179,000
Operating profit	\$ 1,777,000	\$ 1,360,000	\$ 8,754,000	\$11,830,000	\$ 6,579,000	\$ 5,027,000	\$ 9,474,000	\$15,981,000	\$ 9,257,000	\$ 3,131,000
Earnings (Loss)	\$(331,000)	\$(638,000)	\$ 2,795,000	\$ 4,395,000	\$ 2,426,000	\$ 599,000	\$ 3,435,000	\$ 7,251,000	\$ 4,156,000	\$ 263,000
Earnings (Loss) per share	\$(.09)	\$(.16)	\$.72	\$1.13	\$.62	\$.15	\$.89	\$1.87	\$1.07	\$.07
Capital expenditures	\$ 254,000	\$ 810,000	\$ 1,380,000	\$ 1,748,000	\$ 2,053,000	\$ 1,407,000	\$ 2,531,000	\$ 2,954,000	\$ 1,902,000	\$ 890,000
Working capital	\$ 5,639,000	\$ 4,715,000	\$ 5,691,000	\$ 8,534,000	\$ 6,851,000	\$ 7,466,000	\$ 6,335,000	\$ 6,533,000	\$ 3,298,000	\$ 2,063,000
Average copper price per pound	48.7¢	49.4¢	65.6¢	73.3¢	60.0¢	56.4¢	61.8¢	70.5¢	47.2¢	31.7¢

